SASKATCHEWAN
TRANSPORTATION COMPANY

Annual Report 2000

Corporate Mandate
1

Letter of Transmittal
2

Report of the Chair of the Board
3

STC Board of Directors
4

Corporate Profile
5

Report of the President
6

The Bus Company

Tying Saskatch

Corporate Mission, Vision and Values
8

Management Discussion and Analysis
9

Public Policy And Financial Integration
18

Financial Statements
23

Auditors' Report
25

Corporate Management
32

Route Map
Inside Back Cover

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Corporate Mandate

The Saskatchewan Transportation Company is a Crown Corporation of the province of Saskatchewan. It was established by Government Order In Council in 1946. Its operations are governed by its Board of Directors, under the authority of The Crown Corporations Act, 1993.

STC is a provincial coach company which provides safe, affordable and accessible bus passenger and freight service to Saskatchewan communities.

ewan Together

Letter of Transmittal

Regina, Saskatchewan

March 31, 2001

To Her Honour,
The Honourable Dr. L. M. Haverstock,
Lieutenant Governor of the Province of Saskatchewan.

Madame:

I have the honour to submit herewith the annual report of the Saskatchewan Transportation Company (STC) for the year ended December 31, 2000, in accordance with The Crown Corporations Act, 1993. The financial statements are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Madame,

Your obedient servant,

Maynard Sonntag

Maynard Sonntag,
Minister of the Crown Investments Corporation of Saskatchewan

Report of the Chair of the Board

As the year 2001 began, the Saskatchewan Transportation Company entered into its 55th year of service to the people of Saskatchewan.

That also marked the beginning of my tenure on the Board of Directors of STC. As a result, my knowledge of the recent operations of the company is more anecdotal than anything else. However, I must say that, from what I've known of the company heading into this position, and what I have learned since, I am pleased to be associated with the team at STC.

Saskatchewan is lucky to be one of the very few remaining jurisdictions in North America which has a publicly-owned inter-city bus transportation system. I believe the reasons why we still have such a system are self-evident -- Saskatchewan is a large, sparsely populated area, where the vast majority of services are concentrated in about 10 centres.

Everyone in the province should have access to the facilities available in those centres, and the best way to ensure that there is a way to do this is to provide a bus service. Making sure the widest possible spectrum of people have this kind of access to public, inter-city transportation is the public policy purpose behind STC.

And it is because of this commitment to a public policy purpose that STC operates as a Crown corporation. It has the liberty to be concerned about things other than just the bottom line. It has the authority to move "service" from a concept to a governing principle.

In its 55 years, STC has become an institution in this province: The Bus Company. It continues to provide a vital link between Saskatchewan communities and, more importantly, between Saskatchewan families.

What do you do in Saskatchewan if you're a university student who wants to visit the family in Yorkton for the weekend? You take the bus. If you have to get from Regina to Saskatoon for business, and there's a winter storm, making the highways treacherous? Take the bus. You have to get to Weyburn for a medical appointment, but you don't feel up to driving? Take the bus. Have to get a parcel of Christmas gifts to Meadow Lake? The bus. Need a part for your combine, and it's in North Battleford? The bus.

In our province, there are thousands of reasons for needing the service. The one constant is that STC will be there to provide you with safe, reliable, affordable, courteous service.

I think, like so many people in Saskatchewan, I took this advantage for granted, until I had a chance to observe the operations of the company, and to see just what is involved in getting that university student home safely, or that Christmas parcel there on time.

Since I have had the opportunity to see STC operations, close-up, I have a greater understanding of what is involved. The work that must go into ensuring the coaches are in top mechanical shape at all times; the intricacies of scheduling not only STC's own service, but the interconnections with its partner-carriers; the devotion of drivers who ensure customers always arrive safe and comfortable; the complicated actions of freight-handlers, ensuring that packages get where they are supposed to be, when they are supposed to be; the office staff, who see to it that all billing is correct and punctual.

And I have a greater appreciation of what the STC team has done to ensure the company continues to operate so smoothly despite tough financial times. The fact that the annual cash loss has fallen from $8.6 million just three years ago to $2.9 million in 2000 speaks for itself. As does the commendable stewardship of the public purse, demonstrated by the fact that, although STC had authority for a subsidy of $3.9 million in 2000, it actually spent only $3.65 million of that amount, leaving $250,000 of taxpayers' money untouched.

In the coming years, I look forward to my duty to the people of Saskatchewan to help steer the course for STC, to ensure that it remains committed to its enviable record of public service and prudent financial management.

For the past 55 years, the people have wanted a well-run bus passenger and freight service helping to tie our province together. STC has been there for them. I am confident that, as we move through the 21st century, one of the things that Saskatchewan people will continue to be able to count on is the bus company.

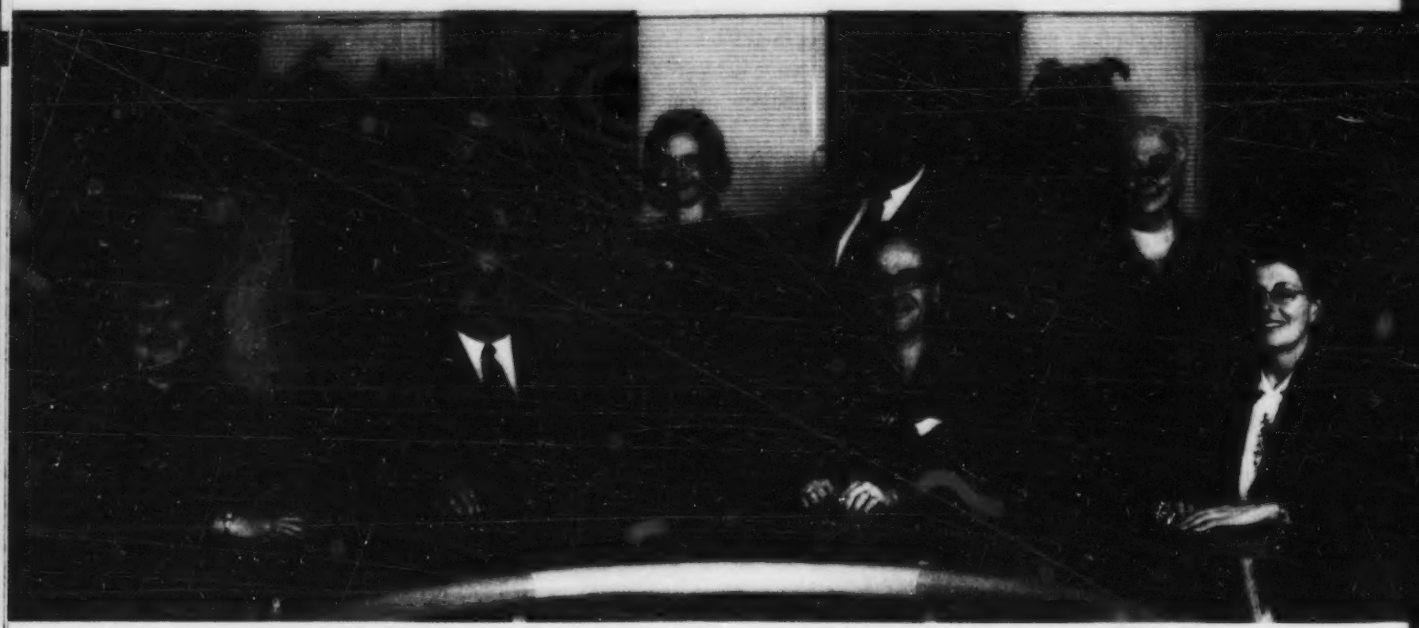
I would be remiss at this time if I did not offer a word of congratulations to STC's outgoing Board of Directors members. To Murray Westby of Watrous, outgoing Chair, Judy Harwood of Saskatoon, outgoing Vice-Chair, Lorne Johnston of Eston, Elaine Yaychuk of Meadow Lake and Lynne Johnston of Regina, I say thank you for a job well done.

The role you played in preserving STC as a strong, vital part of the Saskatchewan community has not gone unnoticed or unappreciated. I can only say that the new Board of Directors will do all it can to build on your legacy.

Janet Folk

Janet Folk
Chair of the Board of Directors

Board of Directors



Seated, left to right: **Dawn Stranger**, CIC, Corporate Secretary; **Wayne Timoffee**, Prince Albert, Chair, Planning, Priorities and Governance Committee, Member, Selection Committee; **Jim Hadfield**, President and CEO; **Janet Folk**, Regina, Chair, Chair of Selection Committee, Member, Audit and Finance Committee;
Standing, left to right: **Feyhan Al-Katib**, Davidson, Vice-Chair, Chair of Audit and Finance Committee, Member, Selection Committee; **Larry Schultz**, Ft. Qu'Appelle, Member, Planning, Priorities and Governance Committee; **Holly Ann Knott**, Saskatoon, Member, Audit and Finance Committee; **Leo Weaver**, Regina, ATU Representative, Member, Planning, Priorities and Governance Committee; **Cecile DeBray**, Duck Lake, Member, Planning, Priorities and Governance Committee.
2000 Board Members: **Murray Westby**, Watrous, Chair; **Judy Harwood**, Sakatoon, Vice Chair; **Elaine Yaychuk**, Meadow Lake; **Lynne Johnston**, Regina; **Lorne Johnston**, Eston.

2000 Corporate Profile

- Established 1946 by Order-In Council; has operated continuously
- Serves 276 communities in Saskatchewan
- Operates 28 bus routes, travelling more than three million miles per year
- Fleet of 39 coaches and vans, varying in size from 55-seater to 15-seater, as well as trucks and freight trailers
- Has 206 agents operating in rural Saskatchewan
- Operates passenger and express depots in Regina, Saskatoon and Prince Albert
- Operates service garages in Regina and Saskatoon
- Head office in Regina
- Staff of 234, made up of 191 full time and 43 part-time; 209 employees in-scope, 25 employees out-of-scope
- In-scope employees represented by the Amalgamated Transit Union, Local 1374
- Annual payroll of $8.2 million
- Assets of $18.2 million (1999 --$17.5 million)
- Expenditures in 2000 $16.5 million (1999 -- $15.8 million); Revenues in 2000 $13.6 million (1999 -- $12.7 million)

Passenger Service:

This unit is responsible for all aspects of ensuring STC's passengers enjoy a safe and reliable trip. Within this unit are the motor coach operators, passenger service attendants and custodians. The rural agencies provide services to this unit as well. It is STC's largest employee complement.

Express Service:

This unit is responsible for freight and baggage handling for STC and connector buses, with staff in all three depots. It receives and delivers freight to and from customers. Pick Up and Delivery services are available in Regina, Saskatoon and Prince Albert as well as some rural agencies.

Maintenance:

Primary responsibility of this unit is the maintenance, cleaning and storage of all company vehicles. This is done in service garages in Saskatoon and Regina. It is also responsible for on-the-road servicing of coaches, when required. This unit also provides maintenance, cleaning and storage to coaches of other carriers, done on a contract basis.

Finance:

This unit is responsible for the collection of revenues from customers and the payment of STC's suppliers. It has sub-units for billing, accounts receivable and collections, accounts payable, agencies, and reclaims (billing and paying connecting carriers, such as Greyhound, for services rendered). It is responsible for the company's budgeting, financial forecasting, corporate insurance and internal controls.

Information Systems:

This unit is responsible for the procurement of all corporate hardware and software needs. It ensures that adequate backup and recovery procedures are in place and maintains the network on a dav-to-day basis. This unit also maintains the stand-alone systems at depots, agencies and client sites throughout the province.

Human Resources:

This unit handles all staff recruitment and placement, training, and compensation and benefits. It ensures contract compliance between the company and the union. It is responsible for Occupational Health and Safety, workplace safety, anti-harassment programs, employment equity programs and accessibility programs.

Strategic Planning and Communications:

This unit is responsible for corporate communications, internally and externally. It is responsible for the preparation of corporate documents such as the Annual Report, Business Plan and Strategic Plan. It liases with other Crowns and Government agencies. It is responsible for forward planning and issues management for the company.

Report of the President

The year 2000 was an interesting one for the Saskatchewan Transportation Company, alive with challenges, rewards and successes. But through it all, STC was able to reaffirm what the people of Saskatchewan have known for more than 50 years.

We're the bus company. We're the people who get you, or your packages, to the right place at the right time, safely, efficiently, reliably, and courteously. That's our job, and we do it well.

The year started out for us, as it did for most other transportation companies in Canada, with a major challenge. The cost of fuel rose rapidly to unanticipated heights, causing a major impact on the bottom line. In our case, fuel prices for the year ended up $325,000 above budget.

Because of internal economies over the past three years, spending at STC has been cut 23.1 per cent since 1997. This did not leave the company a lot of room to absorb these increased costs. A small passenger fare increase, instituted in September, helped somewhat to make up the difference.

STC's express operations compete in a totally deregulated marketplace and, as a result, our rates are entirely dependent on the marketplace. We did experience some predatory pricing from some competitors during the year, and as a result had to make adjustments to some of our discount programs in order to keep pace.

In the spring, in an attempt to hold the company's market share in the freight industry, in the face of a deregulated, competitive marketplace, STC introduced an enhanced pre-sold program. This program allowed express customers to purchase express waybills in volume, and thus realize a per-shipment saving.

STC realizes that computer-assisted accounting is necessary to operate a modern bus company and, as a result, in 2000 started an aggressive program to introduce the "Gateway" point of sale system to our network. This proven technology, which has been used successfully by Greyhound Canada Transportation Corporation (GCTC) for a number of years, will allow for the automated entry of ticket sales not only in the three main depots of Regina, Saskatoon and Prince Albert, but also in 21 rural agencies.

As previously mentioned, we did bring in a slight increase in our passenger fares in the fall of 2000 in an attempt to ease the inflationary pressures on the company, caused mostly by increases in fuel costs and wages. However, the company did keep intact its system of discounts for our more economically-challenged clients, such as students, Seniors, and those travelling for medical reasons.

The Way To Go frequent user pass, which allowed deeper discounts in certain passenger groups in exchange for the purchase of a $20 annual pass, was a moderate success, with 937 such passes sold in 2000.

Revenue from non-traditional sources, such as foreign coach maintenance, space rental and charters, was excellent overall, bringing in $564,000 in additional revenues during the course of the year. The one disappointment was in the area of bus advertising, where the sale of advertising space on our coaches did not meet expectations. As a result of this, STC discontinued its relationship with its advertising sales agent in the spring of 2000, and from this point forward, the company will act as its own agent in such sales.

STC entered into negotiations with companies in the entertainment business in the province with the aim of pre-selling unused seats on regularly-scheduled bus service. These negotiations are ongoing.

For the third straight year, the company's actual cash loss declined in 2000. The amount of subsidy needed from the Crown Investments Corporation of Saskatchewan to cover operating losses dropped to $1.75 million from $1.98 million the previous year. The total subsidy from CIC, made up of capital investment and operating cash losses, totaled $3.65 million for the year.

Not only was this a decrease from the 1999 subsidy ($3.98 million) of $330,000, but it was $250,000 less than the subsidy STC had been entitled to receive. Prudent management of the business had allowed us to take even less money than had been anticipated.

Overall, our passenger revenues were $6,443,000, compared to $5,837,000 in 1999, and our express revenues were $6,520,000, compared to $6,453,000 the previous year.

Since 1997, STC has worked under operating directives from Executive Government which instructed the company to limit the amount of subsidy it received to $4 million, while continuing to provide the same level of service. While the company has successfully met the conditions of this mandate for the past three years, it is becoming more difficult to do so, as inflation has started to push expenditures above the increase in revenues, and above what the company can absorb.

As a result, the company sought, and received, new operating directives at the end of 2000 which will allow it to examine its service levels from a business-case point of view, and make changes to ensure the level of usage and the level of cost of these services do not get too far out of whack.

There are built in safeguards within this new system to ensure that STC does not lose sight of its primary function -- to provide a bus passenger and express service to the people of Saskatchewan.

With the close of the year 2000, STC has shown itself, once again, to be an adaptable, creative and forward-looking company which meets the challenges facing the inter-city bus business in North America.

In a difficult year, we not only persevered, but actually made progress. Our commitment to the people of Saskatchewan for 2001 is to accomplish the same again.

In recent years, STC would appear to be focused entirely on getting its financial house in order. Although a lot of work has been done in that regard, we have not lost sight, at any time, of our primary purpose, to ensure that the people of Saskatchewan have the passenger bus service they want and deserve.

In its 55 years of operation, STC has always stressed safe, reliable and courteous service. Nothing has changed that commitment. The only thing which has changed, over the years, is that we have found people do not require our service as much as they used to.

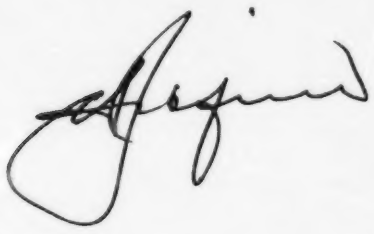
This has led, in some cases, to service being removed. But those events are infrequent. Much more prevalent is the company's ability to adapt its service to accommodate a shrinking market. That is what we will continue to strive for.

At the end of the day, Saskatchewan people might not need us as much as they once did, but those who still need us, need us dearly. And it is towards those people we orient the entire company.

Regardless of the challenges that come our way, the STC Team is committed to ensuring the people of Saskatchewan continue to have a service they have been able to count on for more than a half-century.

From community to community; from door to door; from family to family, we'll be there for you. ***We're the bus company, and we tie Saskatchewan together.***

And that's something to be proud of.



Jim Hadfield
President and CEO

Statement of Mission

STC will continue to provide the widest possible level of passenger bus service in the province of Saskatchewan. In doing so, it will take whatever steps are necessary to contain expenditures, such that the subsidy required from its stakeholders can be held to a minimum.

STC will take what steps are necessary to hold its annual cash shortfall to a maximum of $4 million.

STC will ensure that its freight operations function on at least a break-even basis.

Vision Statement

STC is the primary mover of people and freight in the Province of Saskatchewan. It provides transportation of people and goods which is safe, reliable and affordable. It protects the investment made by the people of Saskatchewan by providing the level of service required in the province's rural communities, while maintaining its losses at the minimum amount possible. While STC can, and will, compete effectively where it operates in a competitive environment, it will still deliver the same level of competitive service in those areas where it operates unopposed.

STC will maintain and improve its market share in both passenger and freight service and will continue to upgrade the service it offers the people of Saskatchewan.

STC will explore any and all methods of raising additional revenues, but never losing sight of the fact that it is, at the end of the day, a bus passenger service for the communities of Saskatchewan.

Corporate Values

We at STC believe that we can only do our job properly when we adhere to the following values:

- Honesty in all business transactions
- Dependability, not only in our vehicle operations, but in all facets of the company's work
- Placing the safety of our customers paramount to all other concerns
- Providing a safe work environment for all our employees
- Never accepting the status quo as the best possible outcome for our stakeholders
- A work environment which supports employment equity and offers advancement to all employees
- Teamwork in decision-making; teamwork in implementing action
- Meeting all targets within our work units and within our corporation
- Searching for innovative solutions to the problems which arise
- Taking pride in our accomplishments, and admitting to our mistakes
- Recognizing the contributions made by all employees to the company's successes

Management Discussion and Analysis

In this MD&A, STC Management will discuss industry trends in the bus industry in Canada, and will look at the company's three components – passenger service, express operations and maintenance in regards to their operating and financial highlights for the year, the challenges which they faced, how they dealt with them, the challenges and opportunities down the road, and the outlook for future operations. Other facets of the company's operations will be discussed as well.

Industry Overview

Comparative industry information within the bus industry in Canada is not readily available due to the competitive nature of the business. This section will use data compiled as part of the Government of Saskatchewan's Crown Corporation Review conducted in 1996 by Proteus Transportation Enterprises of Montreal, as well as a study done for the Canadian Bus Association in December of 1998 by KPMG.

In the course of its review, Proteus said that the vast majority of inter-city bus passenger and freight business was done by what it termed "The Big Seven" companies. This consisted of one very large company, Greyhound Canada Transportation Corporation, and six more moderately sized companies, of which STC was one. These seven companies represent about 80 per cent of the industry in Canada, although Greyhound accounts for almost 40 per cent of that total.

The study showed STC had about two per cent of the passenger market and about eight per cent of the freight market in the nation. This anomaly was explained by the fact that the largest segment of the freight industry is centered in Western Canada, where STC operates.

The KPMG study claims there are between 75 and 100 companies running scheduled inter-city bus service, and that, between them, they generate:

- $250 million in passenger fare revenues;
- $100 million in parcel express revenues; and
- $25 million in ancillary revenues related to scheduled service.

The KPMG study said there are at least 85 million scheduled bus miles operated in Canada every year, with a further four million truck miles. There are 250 to 275 bus routes operated across Canada.

KPMG's study involved six companies, of which STC was one. It found that those six generate 70 per cent of the passenger revenues in the country and 85 per cent of the parcel express revenues. They operate 57 million miles of scheduled service on 132 scheduled routes, as well as the entire four million miles of truck service.

The Proteus study in 1996 noted that, of the seven, the only two companies which were not profitable were STC and Ontario Northland, the only other Crown corporation on the list. It estimated that Ontario Northland's revenue shortfalls were in the range of about $1.5 million, compared to the $4 million to $7 million range of shortfalls seen by STC at that time.

Since that report was issued, STC has made major adjustments that reflect a cash operating loss of less than $2 million in 2000, and projected losses to remain at or near that level for the foreseeable future.

The primary reasons for STC's high losses in the past were that the company's operating expenses were some 35 per cent above the industry norm, combined with the fact that passenger fares were about 25 per cent below norms, and freight tariffs were considerably below average.

In 1998, with the deregulation of the freight industry in Saskatchewan, STC did increase its published freight rates by an average of some 21.7 per cent on most weight classifications. There was no increase to published freight rates in 2000, (although some additional freight services saw a slight increase) while a number of competitors lowered rates because of a deregulated marketplace. As a result, STC's freight rates are much closer to industry standards than in recent history.

STC increased its passenger fares slightly in 2000, the second time in as many years. However, the rates are still slightly below those of other carriers operating in the province and remain below the Western Canadian average.

A major cost reduction program undertaken by the company, ongoing since September of 1997, has reduced operating expenses by 23.1 per cent by the end of 2000, bringing them much closer to the industry standards.

Throughout the industry in Canada, the trend in recent years has been that passenger loads are declining, freight operations are declining, and only the charter industry is in a growth period.

Since STC no longer competes in the long-haul charter industry, it does not share in that industry growth. In recent years, however, STC has made a small, but growing, entry into the short-haul charter business, which will be discussed later in this MD&A.

The KPMG study notes that, in 1996, the industry profit for bus companies operating in Canada was 3.6 per cent of industry revenues, and the annual return on shareholder equity was 16.7 per cent. However, the report also notes

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that this information is somewhat misleading as there are some carriers, including STC, which have a negative return on equity.

According to Statistics Canada, the number of inter-city bus passengers carried by regular service has declined from 33 million in 1980 to 11 million in 1994. The trend is for continued decline.

In the case of STC, the same 14-year period saw a decline in passengers from 787,000 to 381,000. During that same time period, STC reduced its scheduled miles traveled by about 2.5 per cent a year.

There have been some minor reductions in scheduled miles since, but for the most part, the network is almost the same as it was in 1994.

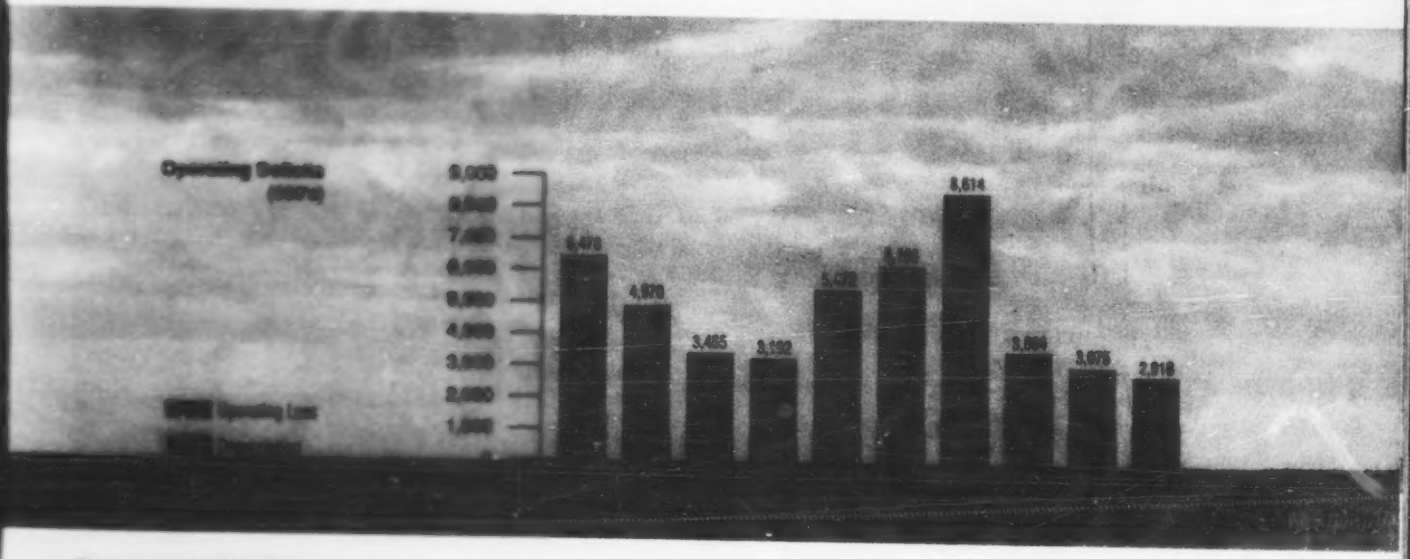
According to KPMG, there are approximately 1,500 bus passenger depots or agencies across Canada, and another 1,000 "flag" stops, but the 50 busiest schedules service only about 400 communities, meaning that the remaining 2,100 communities are serviced by low-volume routes.

In fact, of the 12 million bus passenger trips taken annually in Canada, fully 25 per cent are taken in the Quebec-Windsor corridor. The next-heaviest volumes come on the Calgary-Edmonton corridor, the Vancouver-Kelowna corridor and the Toronto-Sudbury corridor.

KPMG says that cross subsidization of routes is still a major part of the inter-city bus industry in Canada. It estimates that more than 50 per cent of the routes operated in this country do not achieve cost recovery, and are being subsidized in their operations by the more profitable routes. In STC's case, considerably more than 50 per cent of its routes fall into this category.

The profile of bus passengers in Canada, developed by KPMG, fits with the anecdotal information available to STC regarding its customers. Those customers:

- do not have access to a car;
- in more than three-quarters of the cases are travelling alone;
- are slightly more often female than male;
- are made up about one-third of the time, by students or Seniors; and
- come from households with incomes below the national average (below the poverty line in 25 per cent of the cases).



Passenger Service

STC has, far and away, the bulk of the bus passenger business in Saskatchewan.

Greyhound runs two routes through the province (along the TransCanada Highway and along the Yellowhead Highway), and there are a number of small, locally-based carriers, serving only specific areas.

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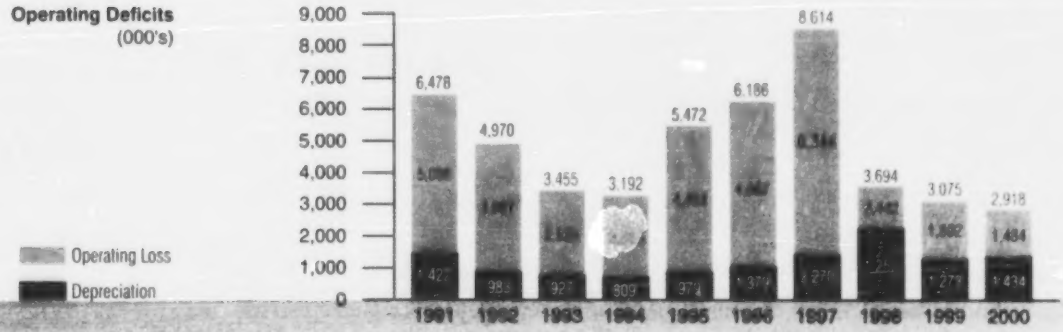

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The company runs 28 routes in the province. Of that number, however, only two -- Regina Saskatoon, and Prince Albert/Saskatoon -- can be said to be carrying a consistently sufficient passenger load to make them profitable operations.

The viability of the other routes varies as does, to a lesser degree, the equipment used by STC to service them. The smallest unit currently operated by STC is a 15-seat van, and the largest is a 55-seat bus. In 1999, the company began a process of "right-sizing" its equipment, which is to say putting smaller coaches on less busy routes. That process continued into 2000.

In 2000, STC received a capital grant of $1.9 million from its chief stakeholder, the Crown Investments Corporation of Saskatchewan. Of that money, about $1.6 million was used for the purchase of three new 47-seat and two new 25-seat buses which were put into service in place of larger buses on some routes. That capital money was also used for the purchase of freight trailers.

In 2000, STC operated 3.3 million miles of bus service in the province, providing connections to 276 communities. It carried 300,396 passengers.

The company's cost per mile of carrying passengers was $2.67, and the revenue per mile generated by passengers was $1.95. This represents a per-mile subsidy of $0.72.

In September of 1999, STC introduced a frequent-user program, called "Way To Go", which provided holders of an annual pass, priced at $20, discounts of an additional 20 per cent on their fares. These passes were made available to Seniors, students and children. In 2000, STC sold 937 such passes.

The bus passenger routes served by STC did not change in 2000. An operating mandate for STC from Executive Government in 1997 stipulated that the company, in order to receive an operating subsidy, was not to reduce its level of service. That mandate expired at the end of 2000 and Cabinet gave the company approval for a new direction that will allow it to examine its routes and make service decisions based on a business case.

A major examination of STC's routes, in terms of both passenger and express usage, was undertaken in 2000. As a result of that review and the new operating mandate, it is anticipated there will be some small changes in the company's service pattern in 2001.

Operating Expenditures
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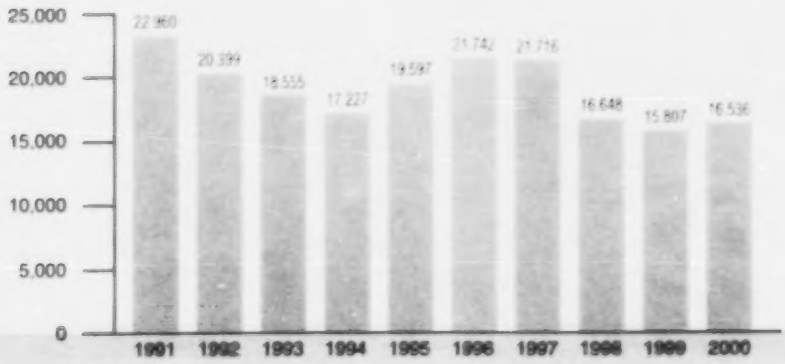

In 2000, STC's revenues for passenger service were $6,443,000, compared to $5,837,000 the previous year. Its operating expenses were $8,965,000, compared to $8,533,000 in 1999.

STC's strengths in the passenger industry are two -- its virtual monopoly of operations in a large portion of the province, and its name recognition.

Its major weakness lies in the changing demographics of the province, which result in a shrinking potential marketplace. Another weakness which displayed itself in 2000 is the company's vulnerability to unexpected increases in the cost of fuel. STC's fuel costs for 2000 were $325,000 above budget due to these unforeseen prices.

The company runs 28 routes in the province. Of that number, however, only two -- Regina/Saskatoon, and Prince Albert/Saskatoon -- can be said to be carrying a consistently sufficient passenger load to make them profitable operations.

The viability of the other routes varies as does, to a lesser degree, the equipment used by STC to service them. The smallest unit currently operated by STC is a 15-seat van, and the largest is a 55-seat bus. In 1999, the company began a process of "right-sizing" its equipment, which is to say putting smaller coaches on less busy routes. That process continued into 2000.

In 2000, STC received a capital grant of $1.9 million from its chief stakeholder, the Crown Investments Corporation of Saskatchewan. Of that money, about $1.6 million was used for the purchase of three new 47-seat and two new 22-seat buses which were put into service in place of larger buses on some routes. That capital money was also used for the purchase of freight trailers.

In 2000, STC operated 3.3 million miles of bus service in the province, providing connections to 276 communities. It carried 300,396 passengers.

The company's cost per mile of carrying passengers was $2.67, and the revenue per mile generated by passengers was $1.95. This represents a per-mile subsidy of $0.72

In September of 1999, STC introduced a frequent-user program, called "Way To Go", which provided holders of an annual pass, priced at $20, discounts of an additional 20 per cent on their fares. These passes were made available to Seniors, students and children. In 2000, STC sold 937 such passes.

The bus passenger routes served by STC did not change in 2000. An operating mandate for STC from Executive Government in 1997 stipulated that the company, in order to receive an operating subsidy, was not to reduce its level of service. That mandate expired at the end of 2000 and Cabinet gave the company approval for a new direction that will allow it to examine its routes and make service decisions based on a business case.

A major examination of STC's routes, in terms of both passenger and express usage, was undertaken in 2000. As a result of that review and the new operating mandate, it is anticipated there will be some small changes in the company's service pattern in 2001.

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STC's three-year collective agreement with the Amalgamated Transit Union Local 1374 expired at the end of 2000. STC absorbed a two per cent increase internally without it having a negative impact on its over-the-road costs for bus passenger service.

Opportunities for the company in the bus passenger industry are limited, as the market for this service will likely continue to shrink or, at best, be stagnant. However, STC is looking at alternatives in the delivery of service which might be useful.

Right-sizing the fleet to ensure that smaller, more cost effective vehicles are used where usage permits, is one option the company has been pursuing for the past three years.

As well, STC will continue to examine schedules to see if some can be made more convenient to the traveling public, to attract more ridership.

If fuel costs continue to rise as they have during 2000, an opportunity could exist for STC as the cost of operating private vehicles continues to rise.

An on-going threat to the company's passenger operations lies in the province's changing demographics. Continued urbanization, reliance on private automobiles, and development of the highway system will only further erode the company's client base.

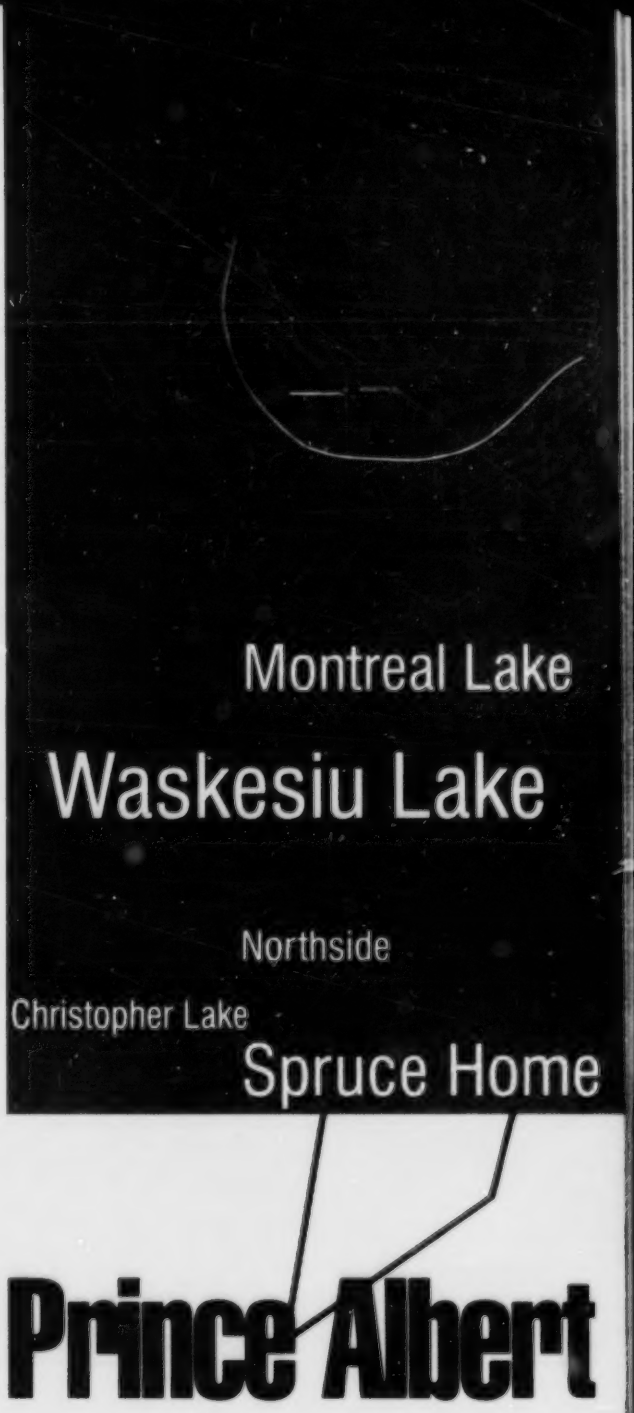
Of considerable concern to STC in 1999 was the threat of action by the Federal government to deregulate the bus passenger industry in Canada. That threat is no longer as prevalent, as the Federal government, for various political reasons, does not seem intent on pursuing that course at this time.

However, since the company has no way of determining what the Federal government's plans are in the future, it must continue to see deregulation as a possible threat.

Deregulation would result in STC losing its running rights on the routes it currently operates in the province, allowing anyone else who so desires to operate a scheduled bus service on those routes. Such "cherry-picking" could see STC having to bear the cost of operating unprofitable routes, while losing the revenue from profitable routes.

Another threat for STC to consider is as a direct result of the company's success in cleaning up its financial situation. Because of the internal economies made in the past three years, the company has a very limited ability to absorb inflationary increases in its operating costs. Fuel and wage costs continue to be a serious concern in this regard.

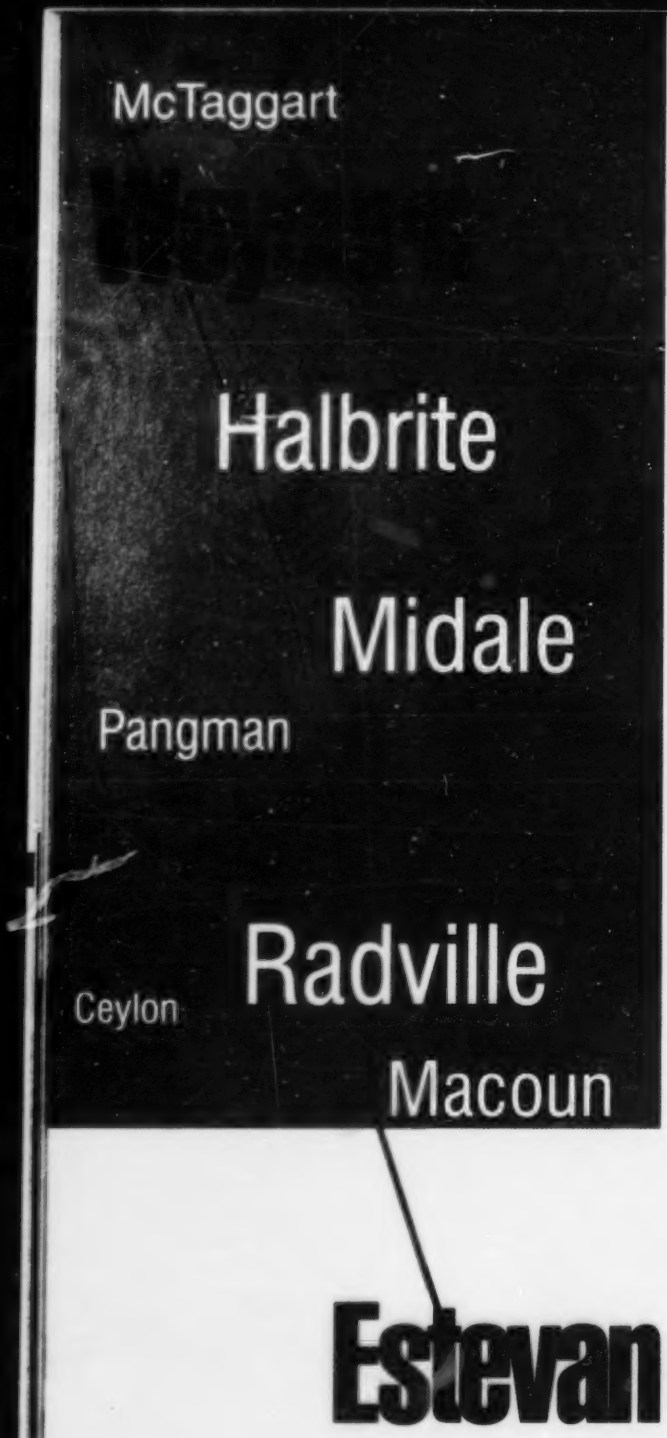
STC's passenger operations account for 74 full time in-scope and eight part time in-scope employees.



Parcel Express Service

STC operates its freight business in a fully-competitive environment. It is in competition not only with other bus services, but also with trucking firms and courier services, as well as Canada Post.

As well as providing overnight depot-to-depot service (in most cases), the company also provides a door-to-door pick up and delivery service in the major centers.



Since its inception, STC has been in the freight hauling business, and will continue to be as long as it is operating buses. The buses it runs have the capacity to carry freight as well as passengers, so it makes sense to do so.

In many rural communities in Saskatchewan, STC has long been the primary carrier of parcels for personal, business, and farm usage.

In 1996, STC expanded into the courier industry and purchased a number of trucks and vans to facilitate this work. However, since it has been found that the volume of freight carried did not justify the cost, in most cases, STC has continually cut back on that service until, at the end of 1999, the only regularly-scheduled truck service remaining is on the Regina-Saskatoon corridor. In 2000, that truck service remained in operation.

To ensure that the loss of trucks does not mean an unacceptable loss of capacity, the company has started to equip its buses with trailers to carry additional freight. Since this has only a minimal effect on the already existing costs of running the bus, it is a much more financially palatable action than running separate truck service.

Freight operations at STC garnered $6,520,000 in revenues for 2000, compared to $6,453,000 in 1999. Expenditures were $3,985,000, compared to $4,010,000 the previous year. That meant a profit of $2,535,000 compared to $2,441,000 the previous year.

The profits made in the freight business were sufficient to pay all corporate expenses not directly related to the carrying of passengers, as required by the Government's mandate to STC.

In early 1998, the Highway Traffic Board, which regulates bus and truck express operations in the province, deregulated all freight business. This means STC no longer has to seek regulatory approval to change its rates for parcel express. In the spring of 2000, STC increased its rates slightly, while offering its customers an enhanced discount for those who pre-purchase the product.

STC's greatest strength in the freight business is the synergies it has with the passenger service. That is to say that, since the buses are running on a large network anyway, with room to carry freight, the over-the-road costs to the company for carrying freight are minimal. With the addition of trailers to the buses, this becomes even more of an advantage.

Other strengths of the company are name recognition, and its ability to provide next day delivery throughout much of the province. As well, it is one of the very few delivery systems in the province which can provide weekend service to many points in Saskatchewan.

STC is very well suited for the transportation of parcels in the one pound to 30-pound range, which makes up about 80 per cent of its freight business. A lot of this is the result of walk-in, rather than regular, customers.

Its major weakness is that its system of freight tariffs cannot keep pace with increasing costs. STC rates are still somewhat below Western Canadian averages for parcel express service. In addition, some firms have been offering deep discounts to attract some major customers away from STC. STC has lost some of these customers, and must now try to win them back with price discounts of its own.

Since the freight hauling business in Saskatchewan is mature, the opportunities for STC to increase its market share are limited. In 2000, STC launched a more aggressive advertising campaign late in the year in an attempt to increase its market share. As of this writing, the success of that endeavor has not been quantified.

Increasing rates is not a sustainable method for the company to increase revenues. The competitive nature of the express business now fully dictates STC's express rates, and is currently keeping those rates low. Any sharp increases could result in a loss of market share.

The main threat to STC's express service is predatory pricing by competitors, which is sometimes difficult for STC to match because of its fixed costs -- mostly labour. Another threat, as with the passenger service, is the ever increasing cost of fuel.

The freight component of the business has 38 full time hourly and 22 part time hourly employees.

Maintenance Services

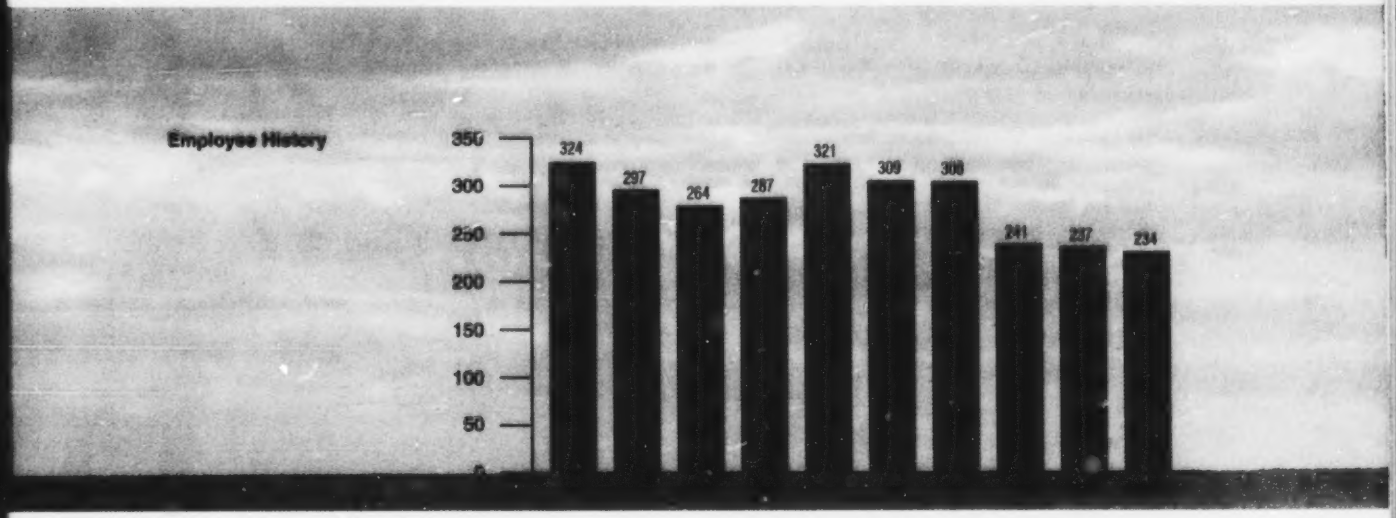
STC operates two service garages in the province, one in Saskatoon and one in Regina.

Traditionally, STC coaches have had a very high standard of maintenance, both in terms of mechanical reliability and cleanliness.

Because of the size of its facilities and the level of service provided, STC contracts maintenance service to a number of other coach operators in the province.

In 2000, maintenance services cost the company $1,885,000, compared to $1,898,000 in 1999. Contracting service to other operators brought in $673,000 in revenues, compared to $576,000 in the previous year.

Over the past three years, STC has added three 15-seat vans and five 22-seat coaches into the fleet to replace larger vehicles. Although this was done for reasons related to over-the-road costs, it was also done for maintenance and safety reasons.



The coaches replaced were very old and required high maintenance. Worse, some were in such poor shape that it is doubtful they would have passed a safety inspection if kept in service. STC refuses to operate unsafe equipment which could jeopardize our passengers. As well, STC would have been forced to abandon service on some routes until coaches could be replaced.

The maintenance savings in 2000 of $13,000 are mostly attributable to the purchase of new buses, and the lower service costs associated with them. Had STC not embarked on fleet renewal, maintenance costs for 2000 would have easily exceeded $2,000,000.

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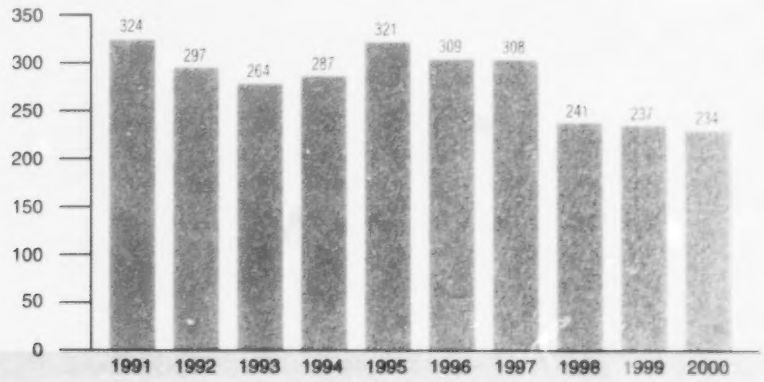
Employee History



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STC's maintenance strength is its staff, and their commitment to safety and quality work. Another area of strength is the homogenous nature of its fleet, which allows for a much smaller parts inventory.

Its weaknesses in this area are the need, because of the geographic size of the province, to operate two facilities rather than one. As well, although the age of the fleet is declining steadily, it is still a relatively older fleet and, as such, requires greater maintenance and service.

Threats and opportunities for the maintenance operation are both related to its ability to contract its service to private operators. The threat is, because of its smaller staff, it will not be able to do as much business in this area as in the past. And the opportunity is that it will still be able to attract all the business it can handle with its reduced staff.

An additional threat is the continued aging of the fleet. STC's fleet continues to be old by industry standards. The company in 1999 put in place a capital plan to replace the oldest coaches and bring the average age of its fleet more in line with the industry average. This continued into 2000.

The maintenance operation has 25 full time hourly and eight part time hourly staff.

Other Issues

STC, because of the nature of the passenger bus industry in North America, has limited room for growth in its primary lines of business -- passenger and express services. As such, the company is always looking for other ways by which to grow its revenue base.

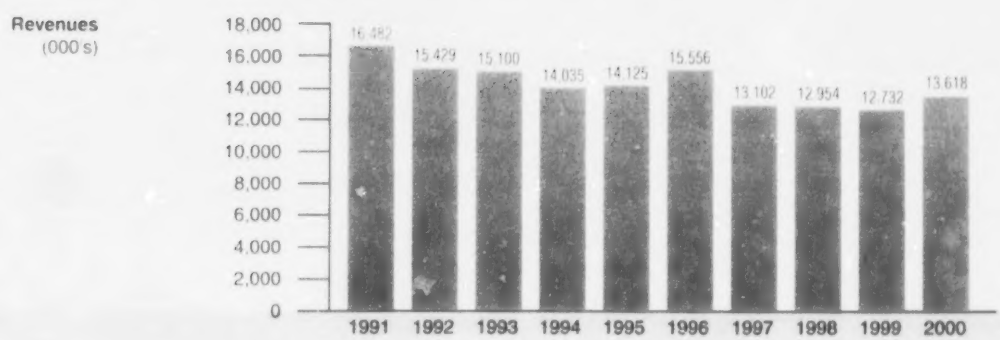
One of these options, previously discussed, is providing maintenance, coach cleaning and coach storage services to other bus companies. While this has been a lucrative venture for the company, limitations in staff and facilities availability makes it a finite area of endeavor.

Starting in 1999, the company has been moving, in a small way, into short-haul bus charters -- that is, charters within the province of Saskatchewan. Promotion of this service has been limited, mostly word of mouth. This is primarily due to the limited number of coaches and/or drivers who would be available at a given time to fulfill a charter contract.

None-the-less, revenues from charters in 1999 were $26,000. In 2000, the company fulfilled 96 charter contracts, with revenues of $70,000 realized.

The company also leases out space that it has in excess of its needs. This is primarily at the Saskatoon garage and Saskatoon depot. In 2000, this activity accounted for revenues of $184,000.

Less successful, to this point, has been the company's entry into the field of bus advertising. This is a method whereby the company charges various companies to place its advertising on the buses, whether this is a full bus "wrap", a partial wrap, or a bus board.



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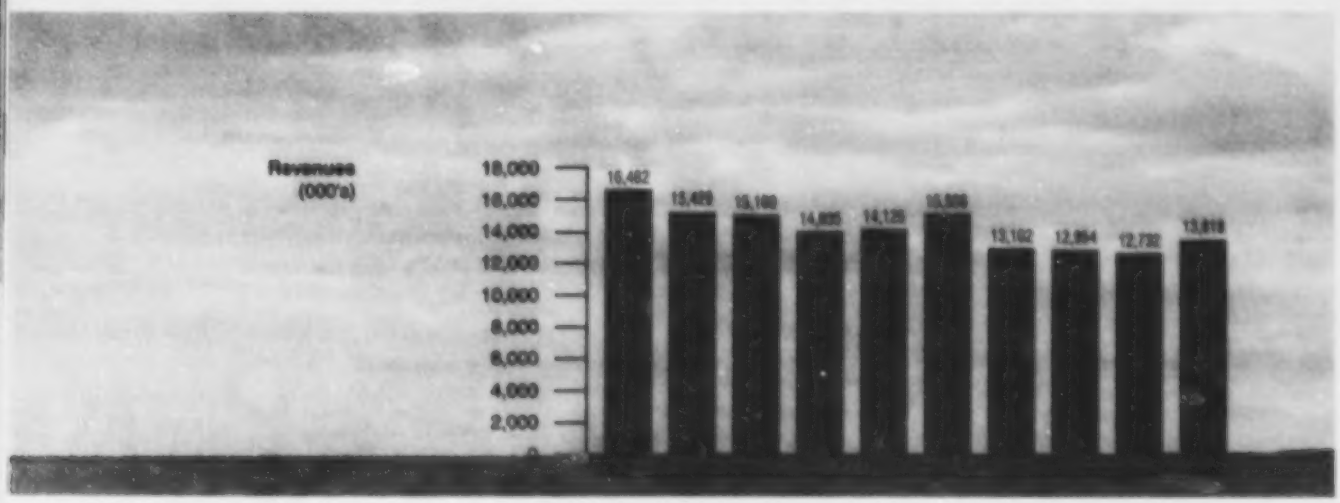


STC started to pursue this activity in 1999, entering into a contract with an agent who was to sell the advertising, and pay STC a fee for use of the buses. This arrangement proved to be unsatisfactory, however, as the agent failed to generate an expected level of sales. The contract was terminated in May of 2000.

Subsequently, the company pursued other agents to act for it in the sale of advertising. However, STC was unimpressed with the commissions being offered to it by such agents and, in late 2000, made the decision to attempt to market bus advertising through its own, existing sales and agency staff.

In 2000, revenues raised through bus advertising amounted to $29,000.

During the year, STC entered into negotiations with companies in the entertainment industry to pre-sell bus seats in excess of needs on some specific routes as an alternative to charter services. These discussions are ongoing at this time.

As well, in late 2000, STC began examining the feasibility of vending devices, specifically cash machines, in its depots as another method of gaining revenues.

In 1996, STC brought on-line a computer system designed to simplify its billing procedure. It soon became abundantly clear that the system could not do the job for which it was designed. In fact, the failure of the system left the company with a very large backlog of unbilled accounts and an unacceptably high level of accounts receivable.

In 1997, it was decided to terminate that system and return to a manual billing system, which has worked satisfactorily for the company ever since.

However, the failure of this system does not negate the effectiveness of technological advances in the bus industry. In 2000, STC began to install a new point of sale (POS) system for the sale of passenger tickets, which will be completed in 2001 into the main depots and some of the larger agencies.

This POS system uses the proven technology of the Gateway system, employed for a number of years by Greyhound Canada. As such, the failures of the previous system are not expected to be repeated.

Because of its financial situation, STC does not make many direct charitable donations to the Saskatchewan community. Instead, the company provides targeted gifts-in-kind on a limited basis, such as free freight or bus passes to some charitable organizations and occasionally will give a charitable charter. The estimated costs of these services in 2000 were about $4,900.

Financial Status

As a result of the debt restructuring in 1997, and the recent use of grant funding to subsidize STC's operations with respect to passenger services, the company remains debt free.

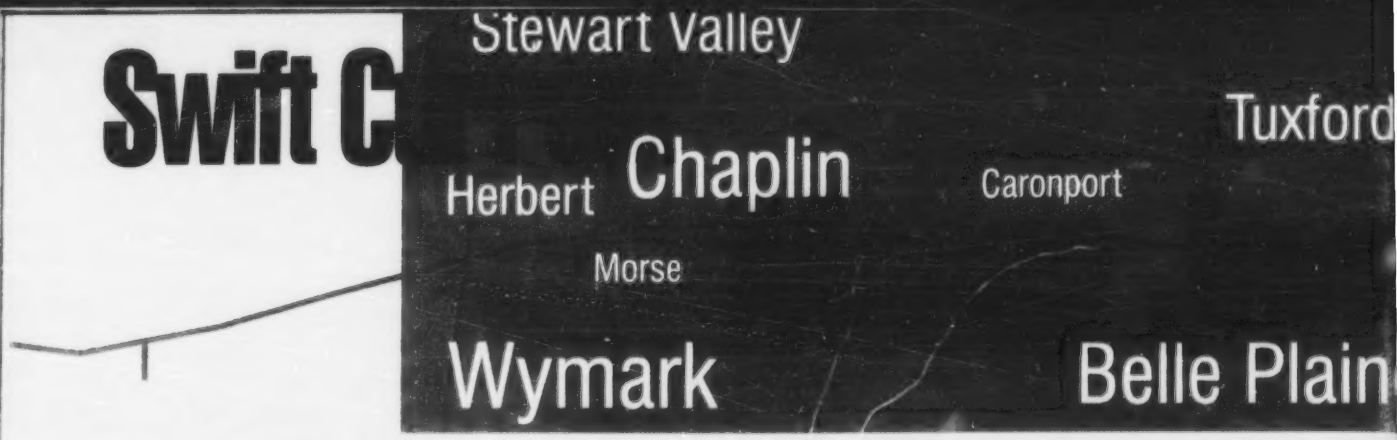
Capital grants received from Crown Investments Corporation of Saskatchewan (CIC) in 2000 were $1.9 million, compared to $2.0 million in the previous year. More than $1.7 million of the capital grant received in 2000 was used to purchase fleet assets. It is anticipated that STC will require $1.8 million in capital grants in the year 2001.

In 2000, STC received $1.75 million in operating grants from CIC to fund part of its operating losses with respect to passenger operations. The remaining funds needed to operate STC's passenger services are generated internally from the express service operations. STC anticipates that it will require $2.0 million in the year 2001 to cover its passenger service shortfall.

Although STC had received approval for a total of subsidy of $3.9 million in 2000, prudent management of finances meant that only $3.65 million was actually required, saving taxpayers $250,000.

The Finance department has 17 full time hourly employees and one part time hourly employee.

Although STC's financial performance is improving, STC is still incurring yearly net cash losses. As a result, STC did not pay a dividend to CIC in 2000, and does not expect to pay one in 2001.



Public Policy and Financial Integration

The Saskatchewan Transportation Company is a Crown corporation of the Province of Saskatchewan, under the auspices of the Crown Investments Corporation of Saskatchewan, the province's holding company.

The CIC Board of Directors, who are all members of the Executive Council of Government, represent the interests of the stakeholders, the people of Saskatchewan. As such, it has developed, in consultation with the Crowns, a long-term strategic plan and a method of evaluation.

STC is in full support of both the strategic objectives and of the evaluation methodology used by CIC. The company feels this is the best method available to not only ensure that it is meeting its social obligations to the people of Saskatchewan, but is also as transparent as it can be in terms of where it is and where it is going as a corporation.

The strategic plan sets out five objectives for a Crown corporation that are to be part of its business and strategic planning. The five objectives are:

1. Customer: To exceed customer expectations for products and services.

2. Financial Health: To help position the entire Crown sector to prosper.
To provide a return to the people of Saskatchewan that justifies the shareholder risk and investment in the overall sector.

3. Mandate and Role: To incorporate the Crown sector's mission into each corporation's mandate and role. To strive to balance accountability with each corporation's need to operate in a commercially competitive environment.

4. Public Purpose: To strive to ensure access to reasonably and competitively priced sector products and services on an equitable basis that might not otherwise be available to all or some of Saskatchewan's residents.
To contribute to social, economic and environmental public policies of the Government of Saskatchewan, including: economic diversification and growth; representative workforces; skills training and development; technical innovation and development and environmental responsibility and stewardship.

5. Human Resources: To align human resources processes and practices to best deal with emerging sector wide issues and to support achievement of individual Crown corporation strategies.

Financial Integrity — The First Consideration

A Saskatchewan Crown corporation is, by definition, a business entity. It provides a service, for which it charges a fee. This is as true with STC as it is with any of the other CIC Crowns.

As a business, the primary concern of STC has to be its financial integrity. The corporation must ensure that the shareholders -- the people of Saskatchewan -- are getting the best possible value for the money invested.

In most business operations, this is measured by return on investment. In the case of Saskatchewan's Crown

corporations, this is found in the dividend paid to the holding company, CIC, by the various Crowns.

An obvious exception to this is STC. As the company does not make a profit, but rather, receives a subsidy, it cannot pay dividends. Because the corporation is seen as a valued contributor to Saskatchewan society, its continued success is not judged solely on financial performance.

The indicators of STC's financial integrity are therefore different from most other Crowns. It is evaluated on the amount of subsidy it receives (Is this kept as low as possible?) and by the value it gets for the money injected into its operation (Are taxpayers getting their money's worth for the subsidy they pay? Is STC spending the money prudently?).

Public Policy — The Second Consideration

As the Government of Saskatchewan defines a Crown corporation, it must be more than just a successful business endeavor; it must also serve a purpose in enhancing the quality of life in the province in a number of areas.

These areas are many and varied, including, but not limited to: providing a public service which would not otherwise be available; providing a necessary service at the lowest possible cost to the consumer; providing employment and employment training opportunities; providing equity employment opportunities; promoting the growth of local businesses and the economy; promoting safe and harmonious workplaces; promoting technological awareness in the workforce; and providing stewardship of the environment.

In essence, then, the corporation must not allow bottom line considerations to outweigh these other important aspects.

Each corporation, depending on such factors as its line of business and its competitive outlook, will take a different approach to attaining public policy goals.

STC, because of its financial constraints, is more challenged than other Crowns in terms of meeting its public policy purpose, but must comply with the overall direction nonetheless.

Integration

Integration of these two important aspects of a Crown's business are found in the Performance Management Document, a contract drawn up each year by the Crown, in consultation with CIC.

This Performance Management Document forms the foundation on which a Crown corporation builds its annual strategic plan and annual business plan. In essence, the corporation designs its operations towards the fulfillment of the Performance Management Document.

The heart and soul of the Performance Management Document is the Balanced Scorecard, a reporting technique used to evaluate the Crown's planning process and its success in moving toward the goals it has set out.

This Balanced Scorecard, divided into four major quadrants, sets out a general purpose, plus specific targets in moving a corporation to that purpose, and the specific measuring devices to judge the corporation's success in its actions.

STC's Balanced Scorecard for 2000, including year-end results, is set out below:

Public Policy

To achieve our vision how can we satisfy public policy goals?

Objective	Measures	Targets 2000	Actual 2000
Provide current service levels	Passenger miles	3.3M	3.3M
Maintain subsidy level	Direct payment (non capital)	$1.9M	$1.75M
Diversify workplace	Implement Workforce Renewal Strategy	Implement	Not implemented
Enhance skills training	Dangerous goods handling training	25 people trained	109 staff; 23 agencies
Protect our environment	Greater fuel efficiency	1.5 per cent decrease in fuel usage	5.52 per cent decrease

Customer

To achieve our vision how should we appear to our customers?

Objective	Measures	Targets 2000	Actual 2000
Maintain service levels	Communities with scheduled bus service — STC	276	276
Maintain service levels	Route miles serviced by STC	3.3M	3.3M
Maintain affordability	Fare revenue per mile operated	$1.89	$1.95
Maintain affordability	Actual cost per mile operated	$2.55	$2.67
Maintain affordability	Subsidy per mile operated	$0.66	$0.72
Maintain passenger safety	Age of fleet	6.9 years	7.4 years
Customer satisfaction	Ridership surveys good or excellent rating	70%	87%

Financial

Objective	Measures	Targets 2000	Actual 2000
To succeed financially, how should we appear to our shareholders?			
To ensure subsidy used for passenger service only	Fare plus subsidy vs.direct costs	100%	90%
To ensure freight profits cover all corporate costs	Express services' contribution	$2.5M	$2.5
To ensure capital grants plus operating grants do not exceed $4M	Approved grants	$3.9M	$3.65M

Innovation and Growth

To achieve our vision, how will we sustain our ability to change and improve?

Objective	Measures	Targets 2000	Actual 2000
Maintain bus operating costs	Budget	$8.6M	$9.0M
Improve billing technology	Revenue recorded by new billing technology	75% of freight volume	30% passengers, 0% freight
Diversify and grow	Increase freight revenues	1%	1%
Right size fleet to match average weekly ridership	Reduction in excess seating on routes where fleet is right sized	33 seats	33 seats

Explanation of Significant Variances:

- Per-rider revenue increased due to fare restructuring.
- Per mile costs increased due to fuel cost increases.
- Overall bus passenger operating budget missed because of additional fuel costs.
- Less than full subsidy taken because it was not needed.
- Workforce Renewal Strategy was withdrawn for further study.

The Balanced Scorecard is not, and cannot be, a static document. It changes from year to year to reflect changes in the company's status and/or its needs. For instance, in late 2000, STC was given the authority to be more flexible in its delivery of service, which was reflected in its 2001 scorecard.

The Balanced Scorecard sets out the following direction for STC in 2001:

Public Policy Goals

To achieve our vision, how can we satisfy public policy goals?

Objective	Measure	2001
Provide adequate level of service	Miles traveled	3.2M
Contribute to sense of community in province	Number of communities served	273
Protect our environment	Greater fuel efficiency	1.5% decrease
Build representative workplace	Implementation of annual joint union-management employment equity plan	1. Develop HR strategic plan including current future skills inventory. 2. Negotiate partnership agreements with two equity agencies.

Customer

To achieve our vision, how should we appear to our customers?

Objective	Measure	2001
Maintain fare affordability	STC fares below Western Canadian average by 2 – 4%	3%
Maintain safety	Age of fleet (large coaches only – more than 30 seats)	8.5 years
	Age of fleet (all coaches, including vans)	7.1 years
Customer satisfaction	Ridership surveys	75% good or excellent

Financial

To succeed financially, how should we appear to our shareholders?

Objective	Measure	2001
Minimize operating grant	Yearly operations subsidy	$2.0 M
Minimize capital grant	Yearly capital subsidy	$1.8 M
Maintain express market share	Increase in yearly express revenue	1%

Innovation and Growth

To achieve our vision, how will we sustain our ability to change and improve?

Objective	Measure	2001
Right size fleet to match needs	Reduce % of fleet that are large coaches (30+ seating)	78%
Explore new business opportunities	Budget to budget increase of other revenues	Budget
Measure and improve employee satisfaction	In-house surveys	1. Conduct and collate surveys to establish baseline.
		2. Develop action plan within 2002 Business Plan / Budget.

Saskatchewan
Transportation
Company

Financial Statements

December 31, 2000

Management's Responsibility for Financial Reporting

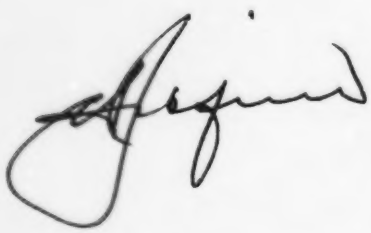
Management has prepared the financial statements of the Company in accordance with generally accepted accounting principles. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which the Company prepared these financial statements.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfil this responsibility, the Company maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Company.

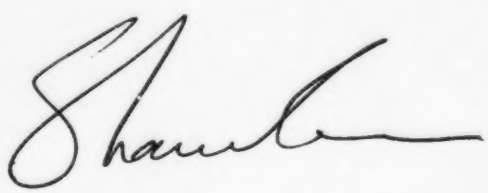
PricewaterhouseCoopers LLP, the Company's external auditors, have examined the December 31, 2000 financial statements, and their report follows.

The Board of Directors of Saskatchewan Transportation Company has examined and approved the statements.

On behalf of the Company,



Jim Hadfield
President & CEO



Shawn Grice
Senior Director
Finance & Administration

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
Royal Bank Building
2010 - 11th Avenue
Suite 900
Regina Saskatchewan
Canada S4P 0J3
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Facsimile +1 (306) 790 7990

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of **Saskatchewan Transportation Company** as at December 31, 2000 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Saskatchewan Transportation Company as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Regina, Canada
February 7, 2001

Chartered Accountants

Statement of Financial Position

As at December 31

	2000	1999
		(Thousands of Dollars)
Assets		
Current		
Cash	$ 1,020	$ 1,528
Express accounts receivable	1,043	1,153
Other accounts receivable	714	643
Inventories	295	330
Prepaid expenses	114	125
	3,186	3,779
Capital assets *[note 5]*	15,020	13,754
	$18,206	$17,533
Liabilities and Province's Equity		
Current		
Accounts payable and accrued liabilities	2,061	2,120
	2,061	2,120
Deferred capital grant *[note 6]*	3,649	2,090
Province of Saskatchewan's Equity		
Retained earnings	12,496	13,323
		$17,533

See accompanying notes

On behalf of the Board

Feyhan Al-Kaki — Director

Janet Hall — Director

Statement of Operations & Retained Earnings

Year ended December 31

	2000	1999
		(Thousands of Dollars)
Revenue		
Express services	$ 6,520	$ 6,453
Passenger services	6,443	5,837
Other revenues	564	438
Gain on disposal of capital assets	91	4
	13,618	12,732
Expenses		
Operating	12,825	12,421
Administration	2,277	2,113
Amortization	1,434	1,273
	16,536	15,807
Loss before grant funding	(2,918)	(3,075)
Operating grant *[note 7]*	1,750	1,980
Capital grant *[note 6]*	341	107
Net loss	(827)	(988)
Retained earnings, beginning of year	13,323	14,311
Retained earnings, end of year		$13,323

See accompanying notes

41 110

Statement of Financial Position

As at December 31

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Director

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Retained earnings, end of year	$12,496	$13,323

See accompanying notes

Statement of Cash Flows

Year ended December 31

	2000	1999
	(Thousands of Dollars)	
Operating Activities		
Net loss	$ (827)	$ (988)
Items not involving cash:		
Amortization	1,434	1,273
Gain on disposal of capital assets	(91)	(4)
Recognition of capital grant	(341)	(107)
Reduction in deferred charge	--	58
Net change in non-cash working capital *[note 9]*	26	1,244
Cash provided by operating activities	201	1,476
Investing Activities		
Additions to capital assets	(2,822)	(1,990)
Proceeds on disposal of capital assets	213	57
Cash used in investing activities	(2,609)	(1,933)
Financing Activities		
Capital grant received	1,900	2,000
Cash provided by financing activities	1,900	2,000
Increase (decrease) in cash	(508)	1,543
Cash (Bank indebtedness), beginning of year	1,528	(15)
Cash, end of year	[illegible]	$ 1,528

See accompanying notes

Statement of Cash Flows

Year ended December 31

	2000	1999
		(Thousands of Dollars)
Operating Activities		
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Cash (Bank indebtedness), beginning of year	1,536	(15)
Cash, end of year	[redacted]	$ 1,528

See accompanying notes

Notes to Financial Statements

1. Status of the Company

The Saskatchewan Transportation Company [STC; the Company] was originally established in 1946 by Order in Council #168 to act as a common carrier providing passenger service transportation, parcel express and freight services. The Company's powers, duties and conditions were affirmed in 1993 by Order in Council #5. The Company is continued under The Crown Corporations Act, 1993.

The accounts of the Company are consolidated in the annual financial statements of Crown Investments Corporation of Saskatchewan [CIC].

The Company is a Provincial Crown Corporation and therefore not subject to federal or provincial income tax.

2. Operations and Financing

In 1997, STC received cabinet direction with regard to its mandate. Under that direction, STC will continue to provide the same level of bus passenger and freight service that it currently provides and will take whatever steps are necessary to keep its annual cash shortfall under $4,000 thousand. At the end of 2000, STC received a new mandate from the Government, which allows the Company to review its routes on a business-case basis. This change may impact operations in 2001.

STC continues to be dependant upon CIC for its funding as a result of the non-commercial routes operated by the Company. By way of Orders in Council #741/1999 and #742/1999, the Company was authorized to obtain grant funding up to $3,900 thousand in total for both capital and operating requirements. During the year, the Company requested and received $3,650 thousand of the $3,900 thousand authorized.

3. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles. The significant policies are as follows:

Inventories

Inventories of vehicle parts and supplies are stated at the lower of average cost and replacement cost.

Capital assets

Capital assets are stated at cost less accumulated amortization. Expenditures for betterments, such as major refurbishment and structural repairs, are capitalized. Normal maintenance, such as engine and drivetrain repairs or replacements, mechanical repairs and preventative maintenance, are expensed as incurred.

Operating Grant Revenue

Operating grants from CIC are recognized as revenue when received.

Capital Grant Revenue

Capital grants are deferred as received and are recognized as revenue over the life of the asset. The Company recognizes a portion of the capital grant as revenue each year equivalent to the amount of amortization recognized on the assets acquired with the grant funds.

Amortization

Amortization is provided from the date assets are put into service and is recorded on the straight-line basis at rates designed to amortize the cost of the capital assets over their estimated useful lives after considering salvage values.

Estimated useful lives are as follows:

Buildings	10 to 40 years
Vehicles	3 to 15 years
Other equipment	3 to 10 years

4. Financial Instruments

For certain of the Company's short-term financial instruments including:

- Cash
- Accounts receivable
- Accounts payable
- Bank indebtedness

The carrying amounts approximate fair value due to their immediate or short-term maturity.

5. Capital Assets

	2000			1999
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
				(Thousands of Dollars)
Land	$1,902	$ —	$1,902	$1,902
Buildings	9,882	4,753	5,124	5,196
Vehicles	11,930	5,229	6,701	5,763
Other Equipment	4,394	3,101	1,293	893
				$13,754

6. Capital Grant

Order in Council #741/1999 authorizes the Company to obtain grant funding up to $2,000 thousand for capital requirements in 2000. During the year, the Company obtained $1,900 thousand [1999 - $2,000 thousand] from CIC.

7. Operating Grant

Order in Council #742/1999 authorizes the Company to obtain grant funding up to $1,900 thousand for operating requirements in 2000. During the year, the Company obtained $1,750 thousand [1999 - $1,980 thousand] from CIC.

8. Pension Plans

The Company participates in two pension plans. One is a defined benefit plan established pursuant to the Public Service Superannuation Act and administered by the Public Employees Benefits Agency. The Company's contributions to this plan which were expensed during 2000 were $108 thousand [1999 - $111 thousand]. The other is the Capital Pension Plan which is a defined contribution plan administered by CIC. The Company's contributions to this plan which were expensed in 2000 were $378 thousand [1999-$350 thousand]. All eligible employees hired after September 1, 1980 are participants in the defined contribution plan.

The Company's financial obligation to each plan is limited to making regular payments to match the amounts contributed by the employees for current service.

9. Net Change in Non-Cash Working Capital

	2000	1999
		(Thousands of Dollars)
Decrease (Increase) in:		
Accounts receivable	$39	$999
Inventories	35	4
Prepaid expenses	11	(61)
Increase (Decrease) in:		
Accounts payable and accrued liabilities	(59)	302
		$1,244

10. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies and boards and commissions related to the Company by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions, and amounts outstanding at year end, are as follows:

	2000	1999
		(Thousands of Dollars)
Accounts receivable	$134	$100
Accounts payable	199	150
Express revenues	555	541
Other transportation services revenues	227	219
Operating and administration expenses	1,531	1,904

In addition, the Company pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

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	$28,108	**$13,088**	**$15,020**	$13,754

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Corporate Management

Saskatchewan Transportation Company

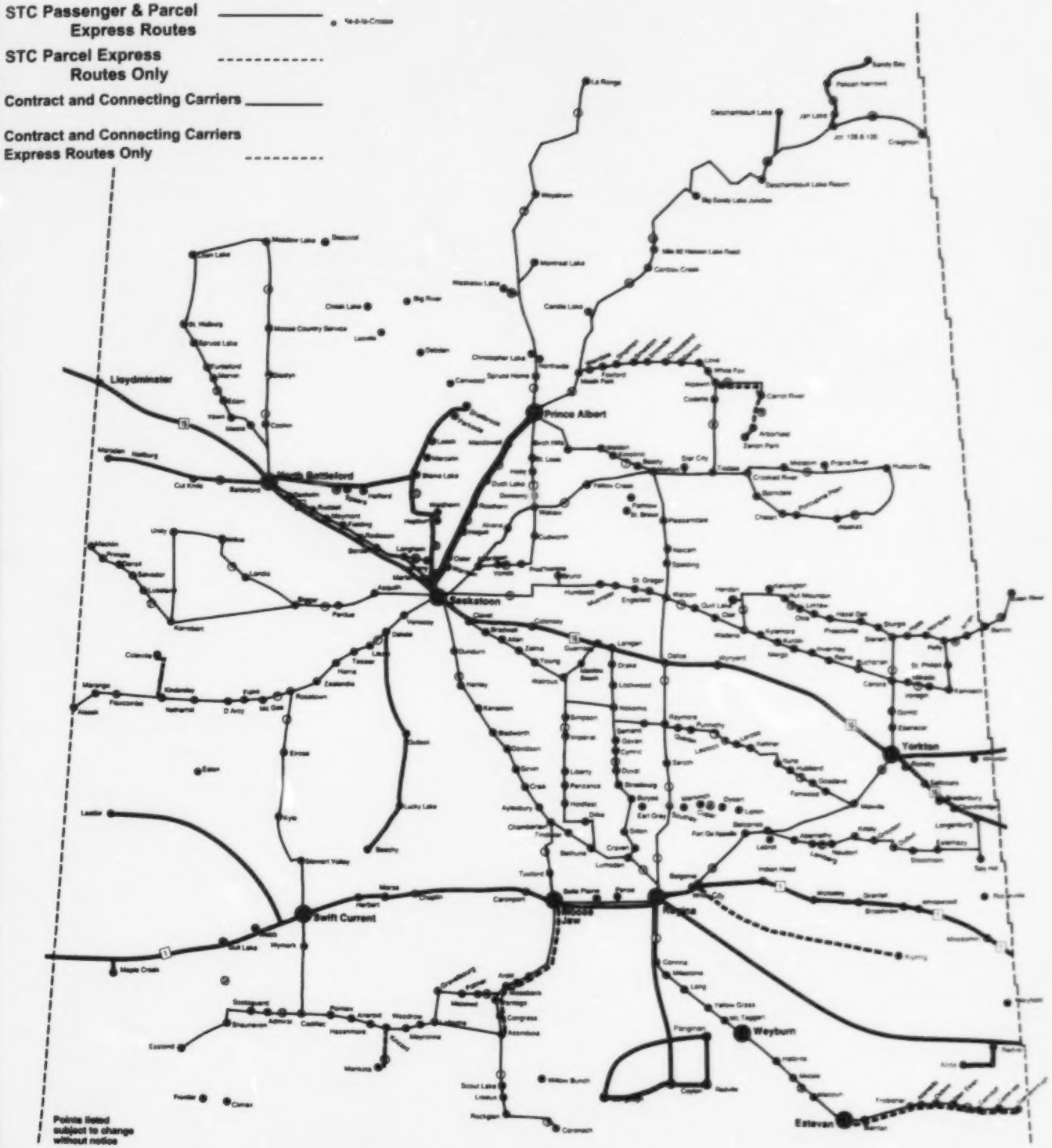
Head Office:
2041 Hamilton Street,
Regina, Saskatchewan
S4P 2E2
Phone: (306) 787-3347

Senior Management

President and CEO	Jim Hadfield
Senior Director Customer Services and Operations	Greg Beattie
Senior Director Finance and Administration	Shawn Grice
Director Human Resources and Labour Relations	Ingrid Reid
Director Communications and Strategic Planning	John Millar
Manager Customer Services (North)	Ray Pilling
Manager Mainienance	Carl Clark

If you would like additional copies of this report, please contact Janet Abells at (306) 787-3412

Routes


STC Passenger & Parcel Express Routes
Ye-a-la-Crosse
STC Parcel Express Routes Only
Contract and Connecting Carriers
Contract and Connecting Carriers Express Routes Only
Lloydminster
North Battleford
Prince Albert
Saskatoon
Swift Current
Moose Jaw
Regina
Yorkton
Weyburn
Estevan
Points listed subject to change without notice